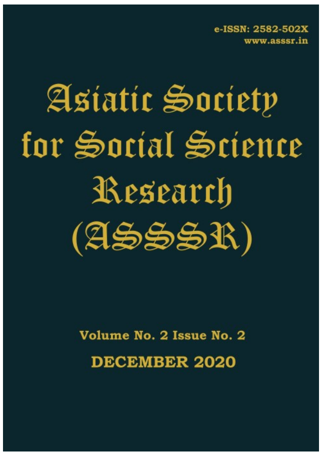

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Public Private Partnership for Economic Progress

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ABSTRACT:
Over the years, perspectives towards the idea of war have resulted in a Public Private Partnership has history of success, doubts, abandonment and hopes. Most nations make out different contracts with private service providers to provide better services to its citizens. If we look at public expenditure as size of the presence of government in the economy then countries like Belgium, Denmark, France, Netherland, Hungary, Portugal, Austria, Italy, Spain, Norway, Germany, United Kingdom, Sweden, Iceland, Canada, United States are mostly spending they are between 40 to 60 percent of GDP. This is also true for some developing and crisis prone economies. Under the present constraint of limited growth scenario in the world economy, growth slowdown in emerging economies, slowdown in tax buoyancy there is stronger need for better governance, sharing of expertise, utilization of more economies of scale of involved parties for better delivery of public utilities and services to work towards infrastructure building and maintenance augmenting private capital and human capital. This paper focuses on (i) different theoretical designs of PPP including strength and weaknesses, (ii) cases of PPP in India and benefits to common people and for nation building and progress lowering the cost, (iii) PPP and reduction of hierarchy through SPV and (iv) failure of PPP and government to retain these public services for good performance.

KEY WORDS: PPP, GDP, Private, Public, Capital, Human Capital, SPV, Economy.

Introduction

The public and private sector (including non-profits) by working together are often able to accomplish far more due to the pooling of differing perspectives and expertise with alternative methods of financing different infrastructure development, delivery, and research for the government.

The financial crisis of 2008 onwards brought about renewed interest in PPP in both developed and developing countries. Facing constraints on public resources and fiscal space, while recognizing the importance of investment in infrastructure to help their economies grow, governments are increasingly turning to the private sector as an alternative additional source of funding to meet the funding gap. While recent attention has been focused on fiscal risk, governments look to the private sector for other reasons:

- Exploring PPPs as a way of introducing private sector technology and innovation in providing better public services through improved operational efficiency
- Incentivizing the private sector to deliver projects on time and within budget
- Imposing budgetary certainty by setting present and the future costs of infrastructre projects over time
- Utilizing PPPs as a way of developing local private sector capabilities through joint ventures with large international firms, as well as sub-contracting opportunities for local firms in areas such as civil works, electrical works, facilities management, security services, cleaning services, maintenance services
- Using PPPs as a way of gradually exposing state owned enterprises and government to increasing levels of private sector participation (especially foreign) and structuring PPPs in a way so as to ensure transfer of skills leading to national champions that can run their own operations professionally and eventually export their competencies by bidding for projects/ joint ventures
- Creating persification in the economy by making the country more competitive in terms of its facilitating infrastructure base as well as giving a boost to its business and industry associated with infrastructure development (such as construction, equipment, support services)
- Supplementing limited public sector capacities to meet the growing demand for infrastructure development
- Extracting long-term value-for-money through appropriate risk transfer to the private sector over the life of the project – from design/ construction to operations/ maintenance

Building modern, sustainable, and reliable infrastructure is critical for meeting the rising aspirations of billions of people around the globe. Infrastructure investment helps raise economic growth rates, offers new economic opportunities, and facilitates investment in human capital. PPPs can be a tool to deliver much needed infrastructure services.

Governments are facing increasing pressure to improve underfunded or neglected public services. But you cannot stop investment either physical capital or human resource capital. Infrastructure gap has a negative impact on economic growth and prosperity. With deregulations and more devolutions there is increasing pressure to open up and to attain competitive efficiency at par with the private sector. Infrastructure gap, inability to maintain existing infrastructure, higher operation and maintenance costs and increasing debt government entail public sectors need to optimize procurement, drawing on private sector services and finances to provide value for money.

Table 01 Classification of countries as per public expenditure as share of GDP

% share	Countries
Less than 25	Singapore (11.28), South Korea, China
25and less than 35	Iran, Mexico, India, Switzerland, South Africa
35 and less than 45	Australia, Russia, Lithuania, Japan, Estonia, Canada, United States
45 and less than 50	Spain, Norway, Germany, United Kingdom, Israel, Sweden, Iceland, Ireland,
50 and less than 55	Netherland, Hungary, Portugal, Austria, Italy, Finland
55 and above	Belgium, Greece, Denmark, France (56.56)

Table 01 Classification of countries as per public expenditure as share of GDP

% share	Countries
Less than 25	Estonia, Russia, New Zeland
25 and less than 50	Switzerland, Norway, Denmark, South Korea, Sweden, Australia, Iceland, Mexico, China
50 and less than 75	South Africa, Netherland, Israel, Finland, Germany, Ireland, India, Hungary
75 and less than 100	Austria, United Kingdom, Canada, France, Spain,
100 and less than 150	Belgium, United States, Portugal, Italy
150 and above	Greece, Japan (253)

PPPs draw on the combined financial, technical and domain-specific resources that local governments and private organizations offer to better share responsibilities and costs between the public and private sector and improve the productivity and innovation of local and global in many public sectors. In short PPP is a cooperative agreement focusing on common goals and sharing inputs and resources for specific, measurable, attainable and to stay relevant. Sometimes it is accused for gradual privatization and the contracting out of government services. But in spirit PPP is recognised as a valuable development tool. It has state and non-state actors like governments, firms, donors, civil society, and the public. It draws heavily from its anticipation regarding political support. Designing, completing, implementing and funding the project are key points for private sector analysis whereas clarity regarding projects, defining and monitoring compliance are major objectives with which public sector approaches it. It is normally expected that risks to be distributed between the public and private partners as per their willingness and ability to assess, control and cope with them.

Promoting private partners in presence of many state actors is another challenge, mostly (i) fear of loss of control, (ii) changing future conditions of agreement, (iii) risks and effects on public employee and political actors.

Public Private Partnership in Infrastructure Resource Centre (PPPIRC) of World Bank found major risks associated with PPPs in development, bidding and interestingly costs in PPP projects are higher than traditional government procurement processes. Good governance to citizens needs is reflected by the provision of public networks. Private and public organizations work hard to provide improved infrastructure facility to afford a better lifestyle at reduced cost of living. It is of real concern that there is negligible research available in the public space on the financial value of PPPs. Ownership of private sector is limited to inked deal and within the boundary of its profit motive and not towards support of sustainable development outcomes. All over the world, well-designed PPP transactions have delivered quality infrastructure and services, often at lower cost, by harnessing private sector financing, technical know-how, and management expertise. This paper focuses on (i) different theoretical designs of PPP including strength and weaknesses, (ii) cases of PPP in India and benefits to common people and for nation building and progress lowering the cost, (iii) PPP and reduction of hierarchy through SPV and (iv) failure of PPP and government to retain these public services for good performance.

In the following table we have shared a crucial concern for PPP worldwide. No need to repeat here that size of the public expenditure, debt positions of the government and delivery history of public institutions, quality of public goods , social overheads and efficiency in government investments are crucial for favouring PPP.

In table I we have shared theoretical inputs on strengths and weaknesses of PPPs.

Table I: Strengths and Weakness of PPPS

Strengths of PPPs	Weaknesses of PPPs
1. Ability to deliver value for money in public service procurement 2. Identifying public needs and provides service 3. Utilizing modern skills, resources and experience of both sectors	1. Public sector may lose managerial control of its services in day-to-day management 2. PPP procurement can be time consuming and expensive. 3. Accountability and transparency are minimal 4. Rather inflexible, especially in the long term nature of contracts 5. Limited scope for modifying services 6. Time and money limitations many projects have proven fatal

Table II Budgetary and other functioning Concerns of PPP

Budgetary Concerns	Design Concerns
Direct relationship between the way a scheme is designed and constructed and its whole life operational	Team building effort within the consortiums help the development and diffusion of both tacit and explicit knowledge
Making measures so that capital expenditure is not turned into re-	Healthy competition amongst funders to reduce funding costs
Lenders to the private sector are very much directly concerned with the quality of the pro-	financial institutions apply very rigorous assessment of the risks
financial institutions maintain close scrutiny over the projects	The responsibility of designing, constructing financing and operating the scheme are with the private
Positive contractual incentives to reach certain performance results	Transaction teams are mostly consist of trained members to evaluate the bids of the sponsor agency, legal, technical and financial advisers from consulting group

Source: http://www.oecd.org/gov/budgeting/oecdjournalonbudgeting.htm

PPP at the core is always measured for its utility to public sector, private sector and to the public at large in terms of raising capital, encouraging private sector in designing, better distribution of public esources for infrastructure projects, helping private sector to deliver innovative services and most importantly better quality services without compromising on public need. Table III shares information on benefits to public sector, private sector and public from this intervention.

Table III: Benefits to People and Sectors

Benefits to the public sector	Benefits to the private sector	Benefits to the public
1. Public authorities to raise capital for high priority and cost involved works. 2. Utilize the private sector expertise in order to deliver services. 3. The resources required especially the gap can be generated. 4. Delegates responsibility and encourages private sector innovation in service design and construction. 5. Allow the best distribution of public resources in the pursuit of infrastructural development. 6. Realizes value for money for the entire life of the project or ser-	7.Offers a wide range of business opportunities. 8.Engage in a broader field of activities of designing and delivering of innovative solutions. 9.Long-term relationships stablelizes the foundation for the growth of its business. 10.The weighted cost of finance is 1 to 3 percent lower than the private sector's cost.	1. Provide services, in a more efficient and cost effective manner. 2. Better quality services without compromising on public need. 3. Facilitate and encourage entrepreneurism by reducing the time, cost and distance 4. In medical sciences provide speedy and state of art technology as life saving tool.

Types of Public Private Partnership

The PPP models can be classified into five broad categories in order of general involvement and assumption of risks by the private sector. The five broad categorizations of participation are (I) Supply and management contract (ii) Turnkey (iii) Affermage/Lease (IV) Concessions (v) Private ownership of assets and PFI type.

Table IV: Category of Public Private Partnership

Broad category	Main variants	Ownership of capital assets	Responsibility of investment
Supply and management contract	Outsourc-	Public	Public
	Maintenance manage-	Public	Public/ Private
	Operational manage-	Public	Public
Turnkey		Public	Public
Affermage/ Lease	Affermage	Public	Public
	BLT*	Public	Public
Concessions	Franchise	Public/Private	Private/Public
	BOT**	Public/Private	Private/Public
Private ownership of assets and PFI type	BOO/ BDFO***	Private	Private
	PFI****	Private/Public	Private
	Divestiture	Private	Private

Transfer of Risks in PPP

It is always better if risks are carried by those that manage them best. The key aspect to PPPs is thus identifying and sharing the risks between private and public partners. Three categories of risks, listed in the table below, can be identified: macroeconomic, commercial and legal/ political risks. Risks are events that can be measured and the probability for its occurrence assigned. Risks vary in nature, some of them are endogenous (controllable by a party to a meaningful extent) and some others exogenous, uncontrollable, to at least some of the parties, but measurable.

A detailed contract identifying and sharing the risks and benefits and the responsibilities of both the public and private partners is required for successful PPP. This need to state and actors need responsibility for clear funding provisions, hierarchy structure, and provisioning of special purpose vehicle to manage the project. We cannot deny that likely revenue flows is important for the PPP schemes. Existence of a governance body of the public sector side is essential to harness the potential and most importantly contain political interferences as well as genuine rise in financing provision to run the project. In the table below we have taken few identified cases of South-Caucasian Railway, Channel Tunnel Fixed Link, Port of Cotonou serves Benin, Niger and the north of Nigeria, Cabeólica Wind Power Project in Cape Verde, Education Voucher System in Columbia (1991-97), Kalinga Institute of Social Service in India.

Table V: PPP Models and risks to partners

Agents	Types of Risks (External)	
	Macro Economics and Com-	Legal and Political
Public	Sovereign Risk	Different investment preference of alternating governments
	Demand Risk	Expansionary anti-crisis policies raising the cost of financ-
Private	Aggregate De-	Different investment preference of alternating governments
	Interest rate risk,	
	Liquidity risk	Expansionary anti-crisis policies raising the cost of financing
	Exchange Rate	Risk of expansion
	Types of Risks (Project Specific)	
	Type-I	Type-II
Private	Design and con-	Contractor failure risk, Renego-
	Operation and	Early termination risk
	Input-output quality and quantity risk, Residual value	Security risk, Technology risk, Idiosyncratic interest and liquidity risk
20-40% of a PPP's capital costs mostly funded by equity, external debt finance and always require stable legal framework.		

Table VII: Case Study of Selected PPP Models

<table>
<tr><th>Type and Description</th><th>Example</th></tr>
<tr><td>Type: - Concession Agreement</td><td>Description:- Government defines and grants specific rights to an entity (usually a private company) to build and operate a facility for a fixed period of time (can be for 30 Years)</td></tr>
<tr><td colspan="2">(new road, railway network)

Example- South-Caucasian Railway :- Concession agreement between the Republic of Armenia (“Concedent”), the South-Caucasian Railway (“Concessionaire”) and the Russian Railways (“Guarantor”) to transfer of Armenian Railway System to South-Caucasian Railway to modernize and operate. It has element of franchise lease as the Concessionaire is providing railway network for other operators including guarantor Russian Railways.</td></tr>
<tr><td colspan="2">Example- Channel Tunnel Fixed Link :- Concession agreement between United Kingdom and France and the Concessionaires (The Channel Tunnel Group Limited and France-Manche S.A.) regarding the development, financing, construction and operation of a fixed link across the English Channel</td></tr>
<tr><td colspan="2">Example- Channel Tunnel Railway Link (High Speed 1):- between St. Pancras Station in London to the Channel Tunnel, between Secretary of State for Transport (UK) and High Speed 1 Limited (HS 1 Limited) Mostly for internal business centers, office space. Private operators harnessing advantage of complementarities (bus, tramway, subway, etc.) and an adequate road system and the related sources of energy no blurred vision or lobbying by environmentalists or user associations</td></tr>
<tr><td colspan="2">Example- Port of Cotonou serves Benin, Niger and the north of Nigeria: Consortium Groupe Bollore (France) with 75% and SMTC (Benin) with 25% and transaction adviser by International Finance Corporations. Increased of traffic from 3.1 to 6.1 million tons (2001-07) and expected to grow more. Creating South Wharf Container Terminal and increasing berth length and draft, storage area, equipment and truck parking (container traffic from 300,000 TEUs to 723,000 TEUs). Private party was given 25 years concession period.</td></tr>
<tr><td>Type :- Franchise lease</td><td>Description :- State agency/ municipality finances and builds utility and contracts to private companies for O&M, Annual Fixed Payments</td></tr>
<tr><td colspan="2">Example- The Lesotho Health Care PPP:- A modern 425-bed national referral hospital for people replacing the older one. Transaction advisor was IFC and contract to Netcare and consortium is Tsepong formed by Netcare. Development of three primary care clinics and provision of all clinical services (recruitment of doctors, nurses, health professionals; and the provision of medical equipment and pharmaceuticals). Reduced death rates by 41%, maternal deaths by 10%, hospital deaths within 24 hours of admittance by 17%, paediatric pneumonia deaths by 65%, still births by 22% and increase in survival of extremely underweight babies to 70%, total annual outpatient visits by 110% with 22% increase in efficiency (on a per patient basis) across the new health network. People prefer PPP in Healthcare. Challenges:- Huge Financial Burden forced Government to relook at the project. Accusation of insufficient monitoring of variation orders (services beyond original agreement), both base price and increment as per inflation appeared low for private player and change in historical user behavior of people were not factored into the agreement. The World Bank Group is trying to help the Government of Lesotho to try and resolve some of the pressing concerns.</td></tr>
<tr><td>Type:- Turnkey or Design-build</td><td>Description: - The private contractor selected through bidding designs and builds a facility for a fixed fee, rate or total cost. Private sector investment is low and for a short-term involves state agency/ municipality financing</td></tr>
<tr><td colspan="2">Cabeólica Wind Power Project in Cape Verde:- Fully commercial operations for four firms offering 25% electricity demand at 25% cheaper rate and lowered carbon emission by 85,000 million tonnes. This was operational in ten months.</td></tr>
<tr><td>Type :-Design-build-operate</td><td>Description:-State agency/ Municipality provides financing and private partner designs, builds and operates</td></tr>
<tr><td>Private Operations</td><td>Description:- Award contracts for full or partial O&M mostly seen in transport, energy, urban. In BOT, the private sector would finance, build and operate an educational facility (public school, university building, etc.) under a long-term contract with the public sector. When the contract expires, the facility is transferred back to the public sector</td></tr>
<tr><td colspan="2">Education Voucher System in Columbia (1991-97):- Helped poor people, helped both private and public schools and fuelled demand for higher education. This was targeted low income families to send their children to schools. Opportunity costs at 77% of unit cost per pupil to family at the maximum value were US $ 190 per year was provided and renewed upto class 11. Some municipalities face higher than allotted vouchers. PACES provided more than 125000 pupils in private schools.</td></tr>
<tr><td colspan="2">Kalinga Institute of Social Service:- It is a successful model thanks to the way it is managed and dedication of its staff and for the inspiring leadership provided by Dr. Achyuta Samanta. Planners and administrators of different governments within India and abroad . The success of KISS has attracted the attention of planners and administrators of different governments within the country and abroad to replicate the model with private administration. India (Odisha, Delhi, AP states), countries including Bangladesh, Nepal (ongoing) land is provided by the government:- benefitting more than 25000 students.
Government provides free books and rations as per their norms , improves sports facilities, employees of KIIT University selflessly donate a small part of their salary, few corporate divert a park a part of their CSR expenditures, some philanthropically donate provisions for building and health centres to help it growing to serve 25000 tribal children in the last 25 years. It has been producing educated and skilled workforce, bureaucrats, sport champions in ASIAD, Commonwealth etc. It has KISS foundations both in UK and USA too. Its success is demand driven and managerial skills and orientation to serve the society. Major risk is coordination failures and scale.</td></tr>
</table>

Source:- https://ppp.worldbank.org/public-private-partnership/ppp-sector/transportation/railways/shared-use-railway-tracks/concession-agreements/concession-agreem https://assets.publishing.service.gov.uk/media/5977576ee5274a289a000031/Topic_Guide_Public-Private_Partnerships.pdf

Conclusion

There is no doubt regarding history of success, doubts, abandonment and hopes in government initiated PPP. Government expenditure in all economies increases over time. This is irrespective of level of commercialization and privatization. Most nations make out different contracts with private service providers to provide better services to its citizens. If we look at public expenditure as size of the presence of government in the economy then countries like Belgium, Denmark, France, Netherland, Hungary, Portugal, Austria, Italy, Spain, Norway, Germany, United Kingdom, Sweden, Iceland, Canada, United States are mostly spending they are between 40 to 60 percent of GDP. This is also true for some developing and crisis prone economies. As seen from the cases analysed the success of PPP in South-Caucasian Railway is due to right planning, demand forecast, deep pocket of the Concessionaire in South-Caucasian Railway. It is a right mixture of concession agreement and franchise. More public is benefitted as the corridor serves movement of wider citizens. Channel Tunnel Fixed Link and Channel Tunnel Railway Link are proving complementary to each other. This is the case of single operator and pricing is the other main strategy. With no major repairs and maintenance the model will work out smooth.

Under the present constraint of limited growth scenario in the world economy, growth slowdown in emerging economies, slowdown in tax buoyancy there is stronger need for better governance, sharing of expertise, utilization of more economies of scale of involved parties for better delivery of public utilities and services to work towards infrastructure building and maintenance augmenting private capital and human capital. Lesotho health care is a classic example of success with people but pinching government pocket for its success. The case reflects awareness regarding successful government health care facility yield in augmented demand. This is crucial learning for PPP as per financial agreement with government. We need more buffer beyond raise in contract price as per inflation rate as rate of rise in healthcare pricing may be more. The case that World Bank is considering case favourably talks about value of success in terms of public acceptability. Cabeólica Wind Power Project in Cape Verde in PPP is another successful case of use of available resources, timeline for completion, costly alternatives and multiple success for cheaper rate and lowered carbon emission by 85,000 million tonnes. Education Voucher System in Columbia provided education and income earning simultaneously. Private education also got a big boost as well as demand for food items, functional literacy and for higher education. Moreover it increases utility of existing government institutions and female empowerment.

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